
Minutes

Board of Natural Resources

July 6, 2004
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Gary Locke

Terry Bergeson, Superintendent of Public Instruction

Bruce Bare, Dean, University of Washington, College of Forest Resources

R. James Cook, Interim Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

BOARD MEMBERS ABSENT

Glen Huntingford, Commissioner, Jefferson County

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:10 a.m. on, July 6, 2004, in Room 172 of the Natural Resources Building.

APPROVAL OF MINUTES

MOTION: Terry Bergeson moved to approve the June 1, 2004, Board of Natural Resources Minutes.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

Kellie Daniels - Premier Forest Products (Handout 1)

Ms. Daniels introduced herself explaining that she works for Premier Forest Products, a family owned and operated independent Forest Products Company located in Grays Harbor County. Ms. Daniels stated that she would be discussing three areas of concern regarding the SHC and mature timber: 1) That there are no interested purchasers of mature timber 2) There is little to no value of such material 3) As a result there is no incentive for the DNR to pursue sales of this material. As a producer of wood products from just such material Ms. Daniels felt compelled to place in the public record the accurate facts regarding the use and value of those materials. She clarified that for the purpose of the letter given to the Board (Handout 1) she is referring to mature timber stands with a diameter of approximately 30' inches or greater & stands of 81 years or greater. Ms. Daniels wanted to inform the Board that from the Canadian border to Northern California, there are many manufacturing companies manufacturing wood products from large diameter material for premium markets. She continued that many of these mills are reliable employers in rural and small communities. Ms. Daniels stated that there is a market for the wood that is

“rotting” on the ground, due to DNR’s lack of a comprehensive program that addresses those salvageable materials the constitutional mandate is losing potential revenue and potential jobs aren’t being created. She explained that her company has been forced to go to Canada to obtain material from larger diameter classes of logs. There are small mills that, although may not employ hundreds, can economically utilize salvageable & smaller volumes of timber for processing. Ms. Daniels stated that some of the prices paid in the past for mature timber have been and continue to range from \$300 to \$1200/mbf net Scribner log basis. Those prices generally reflect a class of logs with dbh of 30” and up. She stated that there is no incentive for DNR to pursue these sales and that they have repeatedly indicated their interest to bid on such sales. She stated that many mill owners have maintained their capacity to process larger diameter logs in the hopes that both state and federal land managers take stock of their larger log diameter inventory. She urged the Board to push for maximization of all the lands available for harvest under the various articulations of the trust mandate. She referenced a January 26, 2004 DNR document that summarized state trust mature timber stands in Western Washington; the document showed that out of 87,586 total acres 25,256 have no current deferrals associated with them. This acreage includes 1,612 acres on the Olympic Peninsula, which includes the Olympic Experimental State Forest (OESF); she pointed out that principle purpose of the OESF was to find ways on how harvest could occur in a sustainable manner within these un-zoned stands. She referenced the contract harvesting legislation and remarked that such sales encourage the contract logger to find markets for all of the material. She thought it would be interesting to see the fiscal impact of a series of pilot sales by contract loggers working for DNR in smaller non-deferred mature forest stands. She concluded her remarks by stating that the Board must understand that there are markets for it’s entire inventory both in Washington and along the West Coast. She asked that the Department pursue sales of those stands not being set aside or off base for HCP related protections as soon as possible. She referenced the Skamania case reminding the Board of their legal duty to produce long-term income for the trust beneficiaries. Her final remarks “We continue to support the positions of the Board members who have articulated the need to obtain revenue for all lands not associated with mandated or negotiated environmental protections. Pursuit of other “laudable” societal goals may be of some interest to those that appear before you. We believe “laudable” societal goals should include all the social benefits that family wage jobs provide.”

CONVENE AS HARBOR LINE COMMISSION

Proposal to Change Port of Bremerton Harbor Area - Resolution # 1125 (Handout 2)

Fran McNair began by introducing Lisa Randlette stating that Ms. Randlette did all the work on this proposal. Ms. McNair said that this Harbor Line Change went extremely well with no opposition and that the City of Bremerton and the community have supported it. Ms. McNair stated that she was there today to ask the Harbor Line Commission to approve the move of the harbor area 400 feet water ward. The Port of Bremerton is proposing a marina development on the downtown waterfront. Harbor areas are defined as areas between the inner and outer harbor lines, the outer harbor line marks the maximum distance as desirable to have structures and associated moorage extend into the water in order to protect navigation and ensure safe vessel movement. The inner harbor area line is established to have sufficient distance shoreward to provide adequate space for piers, wharves, landing streets and other conveniences of navigation and commerce. The area between the two is the harbor area and only includes state owned aquatic lands. The Port of Bremerton has requested that the Harbor Line Commission enlarge the Bremerton Harbor area along the shoreline between the Washington State Ferry Terminal and the USS Turner Joy to accommodate an expanded Marina and associated floating breakwater. The Port’s request will result in the outer harbor line being relocated up to 400 feet water ward for a distance of 1,800 linear feet. The change would add up to 12 acres to the existing 110 acre harbor area; DNR has evaluated whether sufficient area would be maintained outside the harbor area in the entrance to Port Washington Narrows for vessel traffic.

Ms. Bergeson asked if they would be adding docking facilities reaching out into the harbor.

Ms. Randlette said it would be between the USS Turner Joy and the breakwater.

Ms. Bergeson asked if they were trying to bring in more pleasure boats?

Ms. McNair said yes and went on to explain that the Harbor Line Commission has not moved the outer harbor line since 1988.

Mr. Nichols clarified that there would not be a physical expansion to the outer harbor line; it would be underwater.

Mr. Nichols asked if the harbor line would expand in the next ten years?

Ms. Randlette said there is enough clearance to allow for this expansion.

MOTION: Terry Bergeson moved to approve Resolution #1125.

SECOND: Jim Cook seconded.

DISCUSSION: Mr. Cook asked how many people attended the public hearings?

Ms. Randlette said there were two meetings held and approximately 4 people attended.

Ms. Bergeson added that she was very excited about the coming together of the communities on this expansion and stated that this would be a great development.

ACTION: Motion passed unanimously.

LAND TRANSACTIONS

Introduction to Land Transactions -Robin Estes - (Handout 3)

Ms. Estes stated that she would be doing an introduction before the land transactions monthly so that the information could be tied to the asset allocation strategy. She referenced slide 2 "In our effort to achieve long-term benefit to the trust beneficiaries the Department continuously evaluates and rearranges the trust real property asset base."

The Department will:

- Actively reallocate assets to meet strategic objectives
- Actively seek to hold real property assets and will strategically identify and dispose of certain assets that have low revenue or low value.

Disposals:

Portage Creek Land Sale (social)

Connell Land Sale (social)

Electric City (social)

Dalles Mountain TLT (social)

West Tiger Phase 4 TLT (ecological)

Portage Creek Land Sale # 02-074229 (Handout 4)

Debi VanBuren stated that the Portage Creek Sale went to public auction a year ago but there were no bidders. She said there have been two changes that will make this sale a success this time around. Property Description: 40 acres - Common School Trust; Snohomish County; ½ mile East of I-5; 2 miles SW of Arlington; 0.7 acre home site leased until 11/04; structure owned by lessee; \$36,500 (structure only); Purchaser pays lessee for structure. Benefits: Zoned agriculture 10; Portage Creek flows through property; Land Value: \$180,000 (minimum bid); Income: \$1,240; Rate of return: .68%. Recommendation: Designate parcel as Land Bank property; Sell parcel at Public Auction.

Mr. Nichols asked if it was an isolated parcel?

Ms. VanBuren said yes.

Mr. Cook clarified that the lessee has been paying \$100.00 per year for the home site lease.

MOTION: Terry Bergeson moved to approve Resolution #1126.

SECOND: Jim Cook seconded.

ACTION: Motion passed unanimously.

Connell Land Sale #02-072163 (Handout 5)

Ms. VanBuren explained that this would be a direct transfer to the City of Connell. Property description: Common School Trust; Franklin County; 164 acres. Characteristics: Zoned agriculture and commercial leases; sewer ponds and fields for spraying; storage facilities; truck repair shop; Annual Income: \$12,148. 1980's: Portion platted; Zoned: commercial leases; self-serve gas station; county shop and office space; annual income: \$17,125. Value: Appraised at \$625,000; Cash or Contract (\$200,000 down, 10 yrs 6%); 4.7% rate of return.

MOTION: Bob Nichols moved to approve Resolution #1127.

SECOND: Jim Cook seconded.

DISCUSSION: Mr. Bare asked if this sale came to the Board last year?

Ms. VanBuren explained that there was a proposal for the City of Connell several years ago and this was a fruition of the work that was begun then.

Chair Sutherland said the City of Connell had wanted special consideration due to the complexity and difficulties of managing land in Connell. We have finally structured a deal that will allow us to move these properties taking these values and placing them into higher production lands.

ACTION: Motion passed unanimously.

Electric City Trespass #T3-074979 (Handout 6)

Ms. VanBuren explained that the adjacent landowner built a swimming pool on state land. The property was appraised at \$10,000 dollars and the adjacent landowners will pay for all the transaction costs. Property description: Common School Trust; Grant County; Electric City. Resolution: Sell 75'X75' lot; \$10,000 (appraised value); All transactions costs paid by Millers.

Chair Sutherland asked if that was land value non-developed?

Ms. VanBuren said that on this particular transaction the appraiser appraised the adjacent landowners lot and did a before and after. His conclusion was that by adding this particular piece it would be adding \$10,000 dollars to their lot.

Ms. Bergeson asked how someone would get away with building a pool on state land.

Ms. VanBuren said that the landowners said that when they bought one of their parcels they thought it included the trespass but they never verified it on the deed.

Mr. Nichols asked if there was a penalty for this kind of trespass.

Ms. VanBuren explained that there is no way to prove that they built on it intentionally knowing that it wasn't their property.

Mr. Bare asked what the Department would do with the other 39 acres out of the 40.

Ms. VanBuren stated that it was in an agriculture lease and used for grazing.

MOTION: Terry Bergeson moved to approve Resolution #1128.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

Dalles Mountain Trust Land Transfer #02-075054 (Handout 7)

Mr. Challstedt began with the property description: Klickitat County; 80 acres; 13 miles SW of Goldendale; Columbia Hills State Park is adjacent to the West and South sides of the transfer property; Columbia Hills NAP is adjacent to the North side of the State Park. Values: Timber \$0; Land 80 acres \$32,000; Total: \$32,000. Benefits: Trust divests of isolated property; Land value reinvested in productive land; Property is transferred to State Parks and dedicated for open space or recreation.

MOTION: Terry Bergeson moved to approve Resolution #1129.

SECOND: Bob Nichols seconded.

ACTION: Motion passed unanimously

West Tiger Phase IV Trust Land Transfer #02-076012 (Handout 8)

Evert Challstedt began by giving the location of the property: Tiger Mountain State Forest; 2 miles SE of Issaquah; King County; borders West Tiger Mt. NRCA on two sides. Characteristics: 73 acres; 1125 mbf: Alder, Douglas fir, Hemlock; Timber production and recreation; Access: DNR forest access road. Values: Timber \$177,000; Land: \$250,000; Total: \$427,000. Benefits: Timber value benefits school construction; Land value reinvested in productive land; property is dedicated for habitat and recreation under the NRCA program.

MOTION: Terry Bergeson moved to approve Resolution #1130.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously..

TIMBER SALES

Proposed Timber Sales for August & September 2004 (Handout 9)

Tom Heller began by going over the June 2004 sales results: 15 sales & 15 sold; 46.9 mmbf offered & 46.9 mmbf sold; \$9.7 million min. bid & \$12.7 million sold; \$209/mbf offered & \$270/mbf sold; average number of bidders 3; 30% above minimum bid. FY04 Sales Results: 546 mmbf; approx. \$158 Million; unsold volume moved to FY05; offering 570 to 580 mmbf for FY05. Proposed August 2004 Board Sales: 17 sales at 54.5 mmbf; \$13.2 million minimum bid; average \$242/mbf. August 2004 Board sales: recommend all 17 sales at 54,450 mbf with a minimum bid of \$13,181,000 be approved for auction for the month of August 2004.

Chair Sutherland asked what the goal and actual was for end of the fiscal year on the June sales?

Mr. Heller responded that the goal was 570 and that approx. 546 mmbf with a value of \$158 million dollars was the actual.

Mr. Heller explained that there was a sale removed due to Marbled Murrelet occupancy in adjacent trees. The sale will be reconfigured.

MOTION: Terry Bergeson moved to approve August 2004 Timber Sales.

SECOND: Jim Cook seconded.

ACTION: Motion passed unanimously.

Mr. Heller showed the proposed September 2004 Board Sales: 5 sales at 15 mmbf; \$3.3 million minimum bid; average \$235/mbf. September 2004 Board Sales: Recommend all 5 sales at 14,028 mbf with a minimum bid of \$3,292,000 be approved for auction for the month of September 2004.

Ms. Bergeson asked about the SEPA comment on Devil's Call sale?

Mr. Heller explained that they received one SEPA comment regarding that sale due to easement issues with a private landowner. The Region is working on the issue; and this sale has legal access.

Mr. Cook asked if the price of lumber is leveling off?

Mr. Heller said no there's just a slightly less valuable mix of species.

MOTION: Terry Bergeson moved to approve September 2004 Timber Sales.

SECOND: Jim Cook seconded.

ACTION: Motion passed unanimously.

Break 10:30

Reconvened at 10:45

CHAIR REPORTS

Chair Sutherland explained that Bill Wallace and Robin Estes would be giving the Board a briefing on two upcoming transactions, the Hansville transaction and the San Juan Islands portfolio.

Hansville /San Juan Land Transaction Informational Review (Handout 10)

Robin Estes began by detailing a brief history of the San Juan transactions explaining that it had started in the early 80's under the Boyle administration. She then introduced Bill Wallace saying that he has been working on this project almost from the start. Mr. Wallace talked about his involvement with this program and referenced slide 2:

Transferring Common School Trust Lands: The school trust properties in San Juan County are not in a location to earn revenue through timber harvest or other natural resource management activities; Transfer of these properties will allow use of the proceeds for purchase of productive assets to continuously earn income to build public schools; These transfers will allow San Juan County to acquire valuable public open space identified as beneficial for other public uses, including recreation.

He then detailed the history of the San Juan Islands Trust Land Management plan slide 4: 1986 San Juan County and DNR jointly adopted the San Juan Islands Trust Land Management Plan, developed in accordance with a memorandum of understanding signed January 24, 1984: 10 school trust parcels have been transferred (nine to public agencies) and 12 school trust parcels remain.

2001 the plan was updated and amended by San Juan County in consultation with DNR's Northwest Region.

September 2002, San Juan County Commissioners submitted a proposal to Commissioner Sutherland for the future transfer and stewardship of remaining DNR managed school trust properties in San Juan County.

September 2002, Commissioner Sutherland responded favorably to the Commissioners that their proposal is generally consistent with the San Juan Islands Trust Land Management Plan that has guided DNR and the County since 1986.

Since September 2002, DNR and San Juan County have worked with State Parks, Bureau of Land Management, and National Park Service to further implement the plan.

April 27, 2004, San Juan County Board of County Commissioners were updated and a public open house was held in Friday Harbor regarding the status and future plans of DNR land holdings in San Juan County.

Mr. Wallace then referenced a map showing the 12 remaining parcels down from 22 trust land parcels. He then stated that five parcels will be coming to the Board shortly: Shark Reef; Trust Land Transfer, to San Juan County; Diamond Hill, Cady Mountain, Shaw Island; Direct Sale - San Juan County Land Bank, to San Juan County; Shark Reef Road; Public Auction; to highest bidder.

Ms. Bergeson asked for clarification on IAC funding?

Mr. Wallace explained that IAC funding is state dollars and the lease would continue under current use.

Mr. Nichols asked if these parcels could be developed in the future?

Ms. Estes said that under the Trust Land Transfer program there is a 30-year minimum deed restriction for open space and recreation.

Mr. Nichols asked what the Land Bank Open Space program was?

Ms. Estes responded that it's part of San Juan County's program to purchase and manage open space, using a percentage of their real estate tax to purchase lands.

Mr. Nichols asked if the remaining 7 parcels would be handled like the other 5?

Mr. Wallace said yes they are striving for that goal.

Mr. Nichols asked what the Bureau of Land Management's interest was in the San Juan Islands?

Mr. Wallace said they are looking at parcels to manage for conservation purposes.

Mr. Wallace ended with a quote that Commissioner Sutherland had put into one of his letters to the Board of County Commissioners in San Juan County: "We are poised to accomplish multiple goals through a true partnership with San Juan County."

Ms. Estes added that the Commissioners of San Juan County were enthusiastic about the project and the progress that has been made. The public was sad to see DNR go they like DNR as managers but were happy that the land would remain in public ownership.

Ms. Estes talked briefly about the Hansville property explaining that it's 390 acres in Kitsap County. The entire section was acquired at statehood in 1889 and the first sale of land was 80 acres in 1899. In 2001 Port Gamble Skallam Tribe expressed their interest in the property as well as Kitsap County, Port of Kingston, and North Kitsap School District. DNR held a Public Meeting in January and there was a good turnout; there will probably be a public auction held and the parcels will be broken down into smaller parcels. These proposals will be brought to the Board in August.

Chair Sutherland asked what the timing was on the San Juan Islands?

Ms. Estes said it should be in September.

Sustainable Harvest (Handout 11)

Jack Hulsey, Operations Manager, presented. Mr. Hulsey began by stating that most of the discussions to date have focused on the preferred alternative in the first decade, he continued that he'd like to place that in context today and for the long term. He referenced the graph on slide 2, explaining that the green line is the 636. Mr. Hulsey commented that in Resolution #1110 the Board had directed the Department to move toward implementation as soon as it was practical, and this presentation would give more information on where DNR is relative to transition and implementation. He pointed out that there had been substantial discussion about why the 636 targets weren't being met in the first decade and what some of the alternatives were. The Department went back to see where they could close the gap between the 554 and 636. He explained that the downward slope reflects the history of where the sales program has been versus what's growing on the ground (slide 2). He said that one could associate this with arrearage but it's actually a reflection of the current standing inventory (31 billion bf in Western WA), he mentioned the policy opportunities and how they could be spread across time to achieve a variety of

objectives. Mr. Hulsey talked about the suite of current policies that alternative one is under and how that compares with the implementation run. On a net return to the beneficiaries he wondered what the net change would be between alternative one and the preferred alternative.

Ms. Bergeson asked what the implementation run meant?

Mr. Hulsey said it means moving up levels over time. He added that the Department is committed to achieving the 636 bbf as a decadal target. Mr. Hulsey said that 5.9 billion bf can be produced and that the 636 can be reached in the first half of the decade, and possibly beyond that.

Mr. Bare said that he understands that DNR is committed to achieving the 636 target but looking at the graph 636 is never reached over 7 decades.

Mr. Hulsey responded that the 636 number was never a guarantee; the even flow policy allows for variation, the 636 is within flow constraints. None of the alternatives are straight lined.

Mr. Bare said he is clear on those points but restated that 636 is never cut in any year over the 7 decades.

Mr. Hulsey said the Department anticipates reaching 636 by year 5 of the first decade.

Mr. Bare asked for a graph showing the projected sale volumes in the first decade.

Mr. Thronson said that the 636 target would be achieved by Fiscal Year 11.

Mr. Bare asked for annual implementation volume and the values that go along with them for the first two decades. He pointed out that in decade two DNR is not averaging 600 million. He made the point that DNR is committed to achieve 636 billion bf per decade but that it's never reached over 70 years.

Mr. Hulsey stated that the 6.36 Billion Board Feet is first decade target only.

Mr. Bare asked what would be harvested in the first decade?

Mr. Hulsey said 5.9.

Mr. Bare asked for clarification on what was meant by the paragraph on slide 2 (Handout11) stating "The DNR is committed to achieve the decadal target level of 6.36 billion bf. The DNR will annually report to the BNR on issues and the likelihood of meeting the target level." Mr. Bare then asked for a graph showing the first two decades of the annual projected harvest volume and net revenue.

Mr. Hulsey responded that the second decade isn't completed but that the Department is working on it. Mr. Hulsey added that the numbers on the axis are mean annual targets for each decade.

Ms. Bergeson said it was beyond transition.

Mr. Hulsey said moving from a higher level to a lower level is a fairly easy transition.

Mr. Nichols asked if in decade 5 & 6 the 636 is reached (slide 2) (Handout 11)?

Mr. Hulsey said no and added that it wasn't a 6.36 run.

Mr. Hulsey responded that this run was a Board directed policy in terms of flow constraint; it does have ups and downs.

Ms. Bergeson remarked that the 25% management fee is always under the 6.36 and she was under the impression that it could be over 6.36 and under 6.36.

Mr. Hulsey went to slide 3 estimated net revenue for all trusts.

Chair Sutherland stated that the 636 run is a name resulting from policies adopted by the Board in the preferred alternative. Once the preferred alternative policies were developed DNR incorporated those policies into the model. Chair Sutherland talked about the standing inventory, particularly arrearage, and pointed out that as a result of that and the policies put into place, in the first decade the level came to 636, but in the out years it didn't continue at that same level. When the model is put into place you can see that you can't start at 636 in the first year and you have the implementation issue. There is a shortfall in the first five years that is spread out over the next three decades.

Mr. Hulsey agreed with Chair Sutherland's statement.

Chair Sutherland referenced the graph on slide 2 (Handout11) and pointed out that following the exact policies would cause a decline in the second decade.

Ms. Bergeson asked what policies would make the numbers decline?

Chair Sutherland said the policies that were adopted in the preferred alternative.

Ms. Bergeson asked what the Implementation run meant?

Mr. Hulsey responded that if DNR were to harvest as projected and meet only 590 mean annual the extra inventory would be spread out under the Board's policies within the preferred alternative.

Ms. Bergeson asked if this would prevent where the model would have taken it?

Chair Sutherland said yes.

Mr. Bare pointed out that the flow by year and projected harvest for the Westside in Fiscal Year 05 is 453, presently DNR is cutting more than that.

Chair Sutherland added that more than 80 million board feet were harvested on the East Side.

Mr. Thronson talked about the biological capacity of the land and the inventory. He pointed to the green line on slide 2 that shows a target level of 636 which represents what the capacity of growing area is plus the backlog of unharvested timber volume from previous decades. If that were to be harvested and recalculated for the second decade it would be the capacity of the land minus the backlog. That's the modeling information shown on the green line. Because the highest possible volume removal target can't be met every year the transition is averaged over the 10-year period and it comes out 590 instead of 636. The area under the curve (460 million) will be added volume on top of capacity in the second decade. The red line represents unharvested available volume plus the capacity of the land.

Ms. Bergeson said the first two diamonds on the red line (slide 2) represent not going into the backlog as deeply in the first decade and then smoothing it out in the second decade.

Mr. Thronson responded that it's not intentional but more dependant upon the Department's physical ability to hire employees. It will take up to four years to reach the target.

Ms. Bergeson asked about the second decade.

Mr. Hulsey said the answer is yes, the run attempts to smooth it out.

Ms. Bergeson said that the Department would be transitioning capacity, arrearage, fund balance, and staff wise in the next four years.

Mr. Thronson agreed.

Mr. Cook said both of the curves represent what is sustainable but the green (which shows 636 achieved at the end of the first decade), is not sustainable at the 636 level. The green line represents what is sustainable over all but the red line shows that to start out slow the flow is more even. Both lines show what is sustainable.

Ms. Bergeson stated that with the biological/department capacity and the arrearage all put together the 636 target could be reached at the end of the first decade.

Mr. Thronson said that was correct.

Ms. Bergeson asked if the decline in the second decade means the arrearage has been used up?

Mr. Thronson said yes.

Mr. Hulsey said the arrearage could be up to 2 billion bf depending on the calculation.

Ms. Bergeson stated that DNR wouldn't have to build the capacity of the Department as steeply if the arrearage isn't being taken in the first decade. Ms. Bergeson said before she can make a decision she would like to know what type of transition DNR would need to do achieve the 590 in the first decade.

Chair Sutherland responded that in order to reach 590 in the first decade the Department would have to get to 636 in some of the years.

Mr. Thronson said part of managing the agency is metering expenses to meet revenues. If DNR sees the need not to have as many staff as projected today then they wouldn't be hired.

Mr. Bare asked which preferred alternative the Board would see in the FEIS.

Mr. Hulsey said the preferred alternative is identified as 636 mean annual. That would provide the level of environmental analysis about a perspective harvest program in the Sustainable Forestry Management Program that would harvest 636 bbf for the decade. The Department is confident that they can reach 590 and they will make every attempt to reach 636.

Mr. Nichols said the term 636 is misleading. One is a multi year plan and it's really only a first decade and then there is the distinction between the implementation run versus the target.

Mr. Hulsey stated that the FEIS would not reference a 636 run; it will be referred to as the Preferred Alternative.

Ms. Bergeson asked if the concept of the implementation run was keeping within 25% of the 636?

Mr. Hulsey said the numbers reflect net revenue to the beneficiaries, it assumes the model costs which flow upward to 30%. DNR is proposing that if the Department moves in that direction the Board of Natural Resources makes the decision of setting the percent up to a statutory ceiling.

Mr. Thronson added that the fluctuation plus or minus 25% is inter and intradecadal.

Ms. Bergeson asked for clarification on the graph shown on slide 3 (estimated net revenue for all trusts).

Mr. Hulsey said the graph looks at Annual Net Returns to the Beneficiaries All Trusts. It includes net of all modeled and anticipated costs both direct and indirect costs within the Department.

Chair Sutherland asked if this was based on the economic forecast?

Mr. Hulsey said yes it starts out with the June 2004 revenue assumptions; it is not constrained by cost.

Ms. Bergeson asked if the net revenue numbers on both the preferred alternative and the implementation run assume the .30 cents on the dollar as a cost of doing business? She asked if there was ten million dollars less to the beneficiaries in the first decade between the preferred alternative and the implementation run? She expressed concern over knowing what the numbers are for the current decade?

Mr. Hulsey said there would be a trust-by-trust comparison on current net returns to the beneficiaries.

Ms. Bergeson asked if you took the 161 million at the end of the first decade what would be the net return to the beneficiary?

Mr. Hulsey said these are modeled costs and he would provide that information as soon as possible.

Ms. Bergeson asked if she was correct to assume that in the first decade with the implementation run there would be a ten million dollar negative difference in terms of return from the preferred alternative as its modeled and in the next decade its 13 million more?

Mr. Hulsey agreed.

Chair Sutherland said this number could be compared to the number that would have been generated by alternative 1.

Mr. Cook pointed out that 1.6 billion per year adds up to a cumulative 2.5 billion after seven decades over what would have been income based on alternative 1.

Mr. Hulsey responded that the difference between alternative 1 and the preferred alternative is .4 billion dollars the first decade, marginal change.

Ms. Bergeson said even with the 30% management cost there would be an improvement of .4 billion in the first decade to the trusts as a whole.

Mr. Hulsey referenced slide 7 & 8 (Handout 11) that shows net revenue to the beneficiaries between the preferred alternative and alternative 1. He added that this is net management investment back into the land, assumed to be 30%.

He then talked about inventory by land class stating that there is a 46% increase in standing inventory starting out with 31 billion bf today moving to 45 billion bf at the end of the 7-decade period. He referenced slide 4 (Handout 11). He then went to slide 5 saying that some of the concerns when looking at alternative 6 in the DEIS included possible harvesting activity in the Riparian areas, DNR corrected that and the model helped inform policy. He stated that the riparian was scaled back and biodiversity pathways were applied. Mr. Hulsey pointed out that the extra harvest occurring compared to the longer term is due to the 2 billion bf of arrearage that started accumulating in 1992, it has resulted in overstocked stands. This tends to reduce that and sets the landscape into a different trajectory. It's a trajectory that provides economic and conservation benefits over time.

Mr. Cook asked for clarification on the two graphs on slide 4 & 5. He wondered whether the majority of the harvest was in the upland with the general objectives and how it could be sustained over the second decade? He then asked if the regeneration on slide 5 matched up with the uplands with general objectives on slide 4.

Mr. Hulsey said that's partly correct, the type of harvest is independent of the land class, so they can't be matched evenly.

Mr. Hulsey went back to the stand development stages on slide 6. He pointed to the blue graph and said that's where the department is currently. You see substantial increases in the more complex components of the landscape as a result of applying these principles, policies, and the commitment to active management across the landscape.

Ms. Bergeson asked for clarification in terms of the forest.

Mr. Hulsey responded that these stands tend to have bigger and more snags, downed woody debris, and are variably complex.

Mr. Thronson added that one of the desired outcomes of the HCP was to have a broader application of the term fully functional forest across the landscape. Part of the management scheme is to have a harvest that creates horizontal diversity (openings, different densities, vertical composition, and stand structure).

Mr. Bare asked what complex was in the past graph and did it include understory development?

Mr. Hulsey said there are different in the way they are grouped but generally DNR is moving toward the six being used. This is an example of how policy and time work to meet objectives.

Ms. Bergeson said the two aren't being compared but will be improved.

Mr. Hulsey referenced a graph on slide 9 (Handout 11) that shows cumulative Net Present Value in 7 decades. It shows a 32% increase compared to alternative 1, it ranges from 717 to 954 depending on which one you are looking at?

Ms. Bergeson asked why the implementation run produces better results over the seven decades.

Mr. Hulsey said it has to do with stand selection and how the volume is spread out. It doesn't have the larger drop in the second decade so there isn't a discount influence.

Overview of the Results

- Data and analyses will become part of the FEIS
- Represents the mix of policy objectives specified in BNR Resolution 1110
- Relies on key features of the "Management Principles and Objectives" adopted by the BNR
- Meets fiduciary and other legal and policy objectives to increase ecological and economic benefits of state trust land management
- Provides a framework for action both strategically and tactically, for the DNR

Mr. Bare asked if moving to the 30% management fee was being recommended?

Mr. Hulsey said no but that the additional income from the 30% could be needed to achieve the 636 target.

Mr. Hulsey said the returns could be substantially larger if the 30% is not needed.

Mr. Thronson began by talking about cost particularly cost of operation versus returns. The 25% fee was set by the BNR in the early 1970's for reasons including the Departments desire to have sufficient income in the fund balance to be able to make investments. Some of those investments were relative to improving dry land in Eastern Washington to irrigated row crop, diversification into orchards, apples and vineyards, and acquisition of permanent access. Events in time changed the cost of doing business both regulatory and policy driven; shown on slide 1 (Handout 12). He added that the cost of business has gone up and most of DNR's costs are related to employment. He referenced slide 2 which showed employment levels. In the late 1970's there were about 200 permanent people Department wide working on the Timber program, currently DNR is at 185.7 FTE's for the Timber Program, DNR has stayed relatively constant through the years. He then referenced slide 3 which showed the composite fund balance at 25% comparing the preferred alternative to alternative 1. He continued that there has been a question about going to 30% in the out years 2013-2015, and could you operate on something less, Mr. Thronson said the answer is yes.

He then referenced slide 4 (Handout 12), which shows the fund balance at 28.8%.

Mr. Mackey interjected and said this was based on the implementation run.

Proposed Board Policies for the Sustainable Forestry Harvest Calculation (Handout #12)

Craig Partridge, Policy Director, began with a brief introduction to the proposed policy statements. Mr. Partridge said that state statute requires the Board to set a harvest level for a planning decade, which translates into decade one. State statute also requires the Board to assure that it is accomplishing sustained yield, which the statute defines as "no prolonged cessation or curtailment of harvest." The statute defines the boundaries of sustained yield broadly; the Board has the opportunity to more precisely define "sustained yield".

Slide 1-3:

Proposed Board Policies for the Sustainable Forestry Harvest Calculation

-Forms of official direction governing implementation of the sustainable forestry harvest calculation:
Federal law (including HCP); State law (including Forest Practices Act/Rules and sustained Yield Statute);
Board Resolution (to be developed) reference to Board Resolution 1110; adoption of 2004-2013 harvest
level; written policy statements; implementation guidance; Department implementing procedures.

Ms. Bergeson asked if the first decade could be carried forward?

Mr. Partridge said the Board would have to have confidence about not only the level set for the first decade and the implementability of it, but also that over a multi decade period that level would be generally sustainable.

Continued on slide 4:

- Law and written policy and procedure direct implementation.
- Modeling anticipates implementation, as directed by law and policy, in order to provide information for decision-makers.

Slide 5:

Relation to Forest Resource Plan Policy Review:

- 40 Forest Resource Plan policies
- Preferred Alternative includes replacements for 5 Forest Resource Plan policies.

Slide 6:

Relation to Forest Resource Plan Review

- 35 other policies are subject to a related planning process under Board authority
- We are proposing to format policies by subject area.

Slide 7:

Five Forest Resource Plan Policies are being changed:

- No. 4 sustainable even-flow timber harvest
- No. 5 Harvest levels based on volume
- No. 6 Western Washington ownership groups
- No. 11 Managing on-base lands
- No. 30 Silviculture activities

Slide 9:

Proposed New Policies:

Definition of Sustainability for Harvest Calculation includes: No. 4, No. 5, & No. 6

General Silviculture Strategy includes: No. 11 & No. 30

NEW: Circumstances Triggering Recalculation

Suggested Policies:

Slide 10-12:

Circumstances Triggering the Need For a Recalculation of the Sustainable Harvest Level:

The Department, with Board approval, will recalculate the statewide sustainable harvest level, for Board adoption no less frequently than every ten years. The Department will adjust the calculation and recommend adoption by the Board when the Department determines changing circumstances suggest that an adjusted harvest level in the near term would be prudent. Such circumstances may include major changes in legal requirements, significant new policy direction from the Board, new information about the resource base available for harvest, or changes in technology.

Slide 13-17:

Definition of Sustainability for the Sustainable Harvest Calculation:

For Western Washington the Department will calculate a separate long-term decadal sustainable harvest level, expressed as timber volume, for twenty distinct sustainable harvest units, as follows: Each of the

seventeen county beneficiaries of State Forest Trust Lands separately, and all of the federally granted trusts and State Forest Purchase lands in Western Washington together, with the exception that the OESF and the Capitol State Forest shall each have a separate calculation regardless of trust. In order to ensure intergenerational equity among beneficiaries, within each sustainable harvest unit, the calculated decadal harvest volume level for any decade may vary up or down, no more than approximately 25% from the level of the preceding decade. In order to take advantage of shorter term operational or market opportunities, the harvest level for any year within a decade may also fluctuate up to 25% plus or minus from the decadal average, as long as the decadal average is met over the decade. Subject to all applicable legal and policy direction, the Department will analyze the financial characteristics of forest stands in order to optimize the economic value of forest stands and timber production over time, in planning and scheduling timber harvests, in making investments in forest growth, and in searching for the least cost methods of achieving other forest management objectives.

Slide 18-23:

General Silvicultural Strategy Applied to the Timber Resource Base Available for Sustainable Harvest in Western Washington:

The Department will follow legal requirements in maintaining the greatest possible portion of the trust forestlands as on base. The Department will provide professional management of forestland through active stewardship of on-base lands. The active management of the land base will be carried out as an integral part of the Department's fiduciary responsibilities and to achieve on a landscape basis a combination of forest structures that provide for broader economic, conservation, aesthetic recreational, and other public benefits. The Department will use intensive and innovative silviculture to guide the desired progression of stand development to simultaneously produce trust revenue and create structural complexity. The Department will target over time, 10 to 15 percent of each Western Washington HCP Planning Unit for older forest conditions. The Department will use retention of existing old growth stands (as defined in the HCP) as a priority in achieving these targets. Retained areas may include Old Growth Research Areas described in Policy no. 14.

Ms. Bergeson asked why the new policy was needed?

Mr. Partridge responded that there had been questions about what was implicit and there have been significant changes in the last couple of decades that have suggested that the current harvest level was out of sync with reality.

Mr. Bare asked why approx was in front of the 25%?

Mr. Partridge said they could discuss this in more detail from now until this is adopted. It gives a little bit of wiggle room but if the Board feels it needs to be taken out it could certainly be done.

Mr. Bare said it was a constraint and should be a hard constraint.

Mr. Bare said the first decade is not linked to the current or past.

Mr. Partridge said that Board has not discussed that but if it seems prudent then it can be discussed further.

Mr. Mackey came forward to explain the modeling results and explained that when the Counties are broken down there are times when it's difficult to keep it at 25%. The Department is trying to work that out.

Mr. Bare asked what happens to policy 7?

Mr. Partridge said it's simply the ownership groups in Eastern Washington and it's the Department's belief that characterizing the policy in this way other than ownership groups would apply, if when we get to working on the Eastern Washington sustained yield it's not consistent then it would be brought to the Board.

Mr. Mackey stated that in order to be sustainable you have to stay within the biological capacity of the land.

Forest Resource Plan Revision (Handout #13)

Clay Sprague, Forest Resource Plan Update Project Manager, presented. Mr. Sprague began by reviewing the timeline of the forest resource plan update slide 2. He referred to the policy subjects by major policy categories (Handout), which will be the majority of his presentation.

Slide 4 Economic Performance:

Financial performance: Financial diversification (Certification, carbon sequestration, environmental services); financial performance measurements (Annual revenue, economic criteria, capital appreciation)

Slide 5 Sustainable Harvest Calculation:

- Recalculating the sustainable harvest level
- Definition of sustainability
- Land classifications

Slide 6 Roads and Rights of Way:

- Road planning, development and maintenance
- Acquiring rights of way

Mr. Nichols asked if the SHC was focused on the economic side?

Mr. Sprague responded that this particular element under economic performance relates to sustainability as Mr. Partridge was describing earlier.

Mr. Nichols asked if all three circles would be included in these policy changes?

Mr. Sprague said yes.

Slide 8 Ecological Protection and Enhancement:

Forest Ecosystem Health and Productivity:

- Forest Health and Fire Protection
- Soils and unstable slopes

Ecological Diversity

- Old Growth and Older forests
- The genetic resource
- Special Ecological features

Slide 9 Watershed and Riparian Systems:

- Cumulative effects
- Riparian and Wetland Management and Protection

Mr. Bare asked if roads and RW should be put under cumulative effects instead of economic?

Mr. Sprague responded that Mr. Bare had mentioned that earlier and the suggestion will be considered as they move into the next phase.

Slide 10:

Endangered Species and Wildlife Habitat:

- Threatened and Endangered Species (How it's managed and compliance with Endangered Species Act)
- Wildlife habitat

Mr. Nichols asked if wildlife includes fish?

Mr. Sprague said yes.

Slide 12:

Social and Cultural Benefits:

- Public Use (public access, recreation, illegal uses, funding)
- Cultural uses and historic and archaeological sites (tribal access on state lands)
- Aesthetics

Mr. Nichols asked about the social aspect of the three circles and wondered how that would fit into these policies.

Mr. Sprague said it would be addressed.

Mr. Nichols added that just like with the SHC the ecological and economic portions are clear but the social impacts become fuzzy. He said the impacts on rural communities (timber industry) and the rural/urban interface issues don't seem to be addressed under these categories and wanted to know if those things would be addressed under the Forest Resource Plan?

Mr. Sprague said it would be addressed but he was not sure if there would be definitive policy regarding those specific issues; the discussions will continue.

Slide 12:

Implementation:

- Forest Land Planning
- Silvicultural strategies
- Forest Land Transactions

Slide 13:

Implementation: Public Involvement & Communication

- Partnerships
- Public Involvement

Mr. Nichols asked how landscape planning fits in these categories?

Mr. Sprague responded that it needs to be the focus of that category; to describe what planning process the Department is going to use and how the various planning process's the Department have are integrated.

Slide 14:

Monitoring, Reporting and Adaptive Management:

- Implementation, monitoring, and adaptive management
- Research

Next steps:

- Develop alternative approaches
- Review alternatives with agency and stakeholders in early August
- Review alternatives with Board at August Retreat
- Begin Environmental Analysis of Alternatives in September

Ms. Bergeson asked if no comments are received would the current approach stay the same?

Mr. Sprague responded that they are required through the EIS process to evaluate reasonable alternative approaches (those that meet the plan purpose statement and the ten management objectives); the analysis will assist in coming up with a Department recommended alternative.

Ms. Bergeson

Mr. Nichols wanted to know if there would be alternatives on each of these policies and then if they would be combined into 3 or 4 alternatives for an EIS.

Mr. Sprague said that he wasn't sure how it would sort out.

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

Bob Dick - American Forest Resource Council (AFRC)

Mr. Dick stated that there is enough inventory to reach the 636 and he would like to know why that number is not going to be reached. He stated that there is no reason that the Board can not vote on the resolution in September.

Eric Harlow - Staff Scientist - Washington Forest Law Center

Mr. Harlow stated concern that the DEIS doesn't allow enough time for the public to comment on the FEIS. He expressed concern over the changes in numbers and said that there is no opportunity to see how the analysis has changed and if the comments have been considered, before the FEIS is published. He suggested that comments should be allowed on FEIS. He expressed concern over riparian procedures and that they haven't been approved by the Federal Services. He then concluded by referring to the niche diversification graph shown earlier in the meeting saying that in 65 years from now could you really predict a 2% difference between alternatives; he wondered if that was significant. He noted that there were no error bars on the graph and because of the complexity of modeling there are errors but they are not shown and he questioned whether or not the preferred alternative was justified.

Becky Kelley - Washington Environmental Council (WEC)

Ms. Kelley expressed concern about the clarity of the presentations and information presented to the public and expressed frustration at the change in numbers and the discussions regarding arrearage. She felt that the written materials don't always reflect conversations that have taken place and that the public needs to be aware so that they can better understand the decisions being made. She noted that although the subject is complex there should be a way to convey the information so that the average person can have some sense of what's taking place. She wondered how the transition changed from 544 to 590; how did DNR staff determine that they would be able to make that extra 36 million board feet. She then stated that there is a distortion in the material presented; to compare the preferred alternative to alternative 1 is not a real comparison of what's happening currently. She then referred to the 2 billion board feet of arrearage and stated that it's been an on-going problem for 40-50 years and cannot be

blamed on any one Commissioner's term; it's a pattern that took a long time to build and will take a long time to get out of.

Marcy Golde- Washington Environmental Council (WEC)

Ms. Golde referred to the supplemental EIS and how there seem to be changes between the DEIS and the FEIS and that's why a SEIS may be necessary. Those differences include the sustainable capacity of the land plus the arrearage and how the harvest for the first decade is being based on those two factors. She stated that the public needs to know what arrearage means and what the Department is doing in that capacity with volumes, numbers, dates, and definitions.

Jim Davis - Olympic Coast Alliance

Mr. Davis expressed concern over changes from the DEIS to the FEIS, and said that's it difficult for the public to figure out what is being changed and why. He then gave an example of harvest volumes in riparian areas stating that in the DEIS it shows a strong emphasis on low volume but in the new tables it shows a strong emphasis on high volumes. He expressed frustration that comments can't really be made because the numbers are constantly changing. He wondered if the numbers now are compliant with the HCP? He conveyed to the Board that he feels that they may be adopting an alternative that could potentially be in violation of the HCP and that if it were to be reversed the public could become even more upset because they had there minds set on a higher volume target.

Chair Sutherland asked if there was anyone else present wishing to make comment before the Board? Seeing none, hearing none.

Mr. Bare asked if arrearage could be discussed at the August retreat.

Chair Sutherland said that would happen

Meeting adjourned at 2:40 p.m.

Approved this ____ day of _____, 2004

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Gary Locke

Bruce Bare, Dean, University of Washington

R. James Cook, Dean, Washington State University (Interim)

Terry Bergeson, Superintendent of Public Instruction

Glen Huntingford, Commissioner, Jefferson County

Attest:

Sasha Lange, Board Coordinator